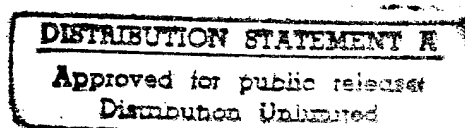
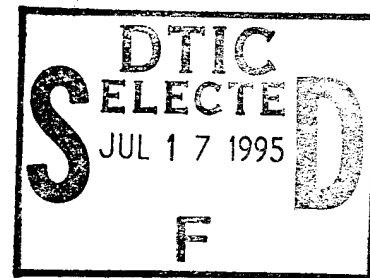


October 1994

FINANCIAL MANAGEMENT

Status of Defense Efforts to Correct Disbursement Problems



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Accounting and Information
Management Division

B-257777

October 5, 1994

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

The Honorable Charles E. Grassley
United States Senate

In response to your requests, we reviewed the Department of Defense's (DOD) efforts to resolve its problems in properly matching disbursements with the corresponding obligations. Matching disbursements with recorded obligations is an important control for ensuring that agency funds are used in accordance with the purposes and limitations specified by the Congress. Without such matching, there is a substantial risk that (1) fraudulent or erroneous payments may be made without being detected and (2) cumulative amounts of disbursements may exceed appropriated amounts and other legal limits.

Long-standing problems have plagued DOD's efforts to properly match disbursements with obligations. Since 1980, we have issued 12 reports¹ pertaining to DOD's disbursement problems, including negative unliquidated obligations (ULOs)² recorded in DOD's accounting records and overpayments made to contractors. For example, in June 1993, we reported that as of December 19, 1992, one of the Navy's primary accounting systems alone contained \$13.6 billion of unmatched disbursements.³

In July 1993, DOD established a team to address its chronic disbursement problems and lack of progress in reducing the amount of disbursements not properly matched to obligations. According to the team leader, \$41 billion of disbursements on DOD's records had not been matched to obligations as of June 30, 1993. This amount included \$19.1 billion that the team identified as problem disbursements for which (1) at least one attempt to properly match the disbursement to a corresponding obligation

¹See Related GAO Products list at the end of this report.

²Transactions result in negative ULOs when the recorded expenditures exceed the amount obligated. Generally, this occurs when (1) a contractor is paid too much, (2) the wrong appropriation account or customer is charged when a payment is made, or (3) information on an obligation, payment, or collection transaction is inaccurately or incompletely processed.

³Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements (GAO/AFMD-93-21, June 9, 1993).

had failed or (2) recorded expenditures exceeded obligations, thus causing a negative ULO. DOD used these two types of problem disbursements to establish a \$19.1 billion benchmark against which it measured and reported its progress in reducing problem transactions.

Our review (1) assessed DOD's progress in resolving problem disbursement transactions, (2) evaluated DOD's criteria for identifying and reporting disbursements not properly matched to obligations, and (3) identified systemic control weaknesses that keep DOD from resolving its disbursement problems. As agreed with your offices, we are continuing to review the status of DOD's disbursement problems and measures to take corrective actions.

Results in Brief

DOD has made some progress in reducing problem disbursement transactions. According to DOD's progress reports, as of June 30, 1994, it had reduced the \$19.1 billion of reported problem disbursements by \$9.4 billion. We do not agree, however, with \$3.6 billion of that total which DOD improperly reported as a reduction after it reclassified certain disbursements as negative ULOS—which are themselves problem transactions that still need to be resolved. While it was proper to reclassify the transactions as negative ULOS, it was not proper to report them as resolved.

In addition, DOD's \$19.1 billion initial benchmark for its disbursement problems was understated—principally because DOD's criteria for assessing the extent of the problem did not consider all types of problem disbursement transactions. For example, DOD did not include \$14.8 billion of disbursement transactions that were over 60 days old but had not been received by an accountable activity for matching with an obligation.

According to our analysis of disbursement data, DOD's records contained at least \$24.8 billion of problem disbursements as of June 30, 1994. The \$24.8 billion included about \$5 billion of problem disbursement transactions related to canceled "M" account balances that DOD has not been able to reconcile. DOD Comptroller officials acknowledged that the original benchmark figure understated the problem and told us that they planned to revise the figure to more accurately show DOD's overall problem disbursements. However, the officials could not specify when they would begin reporting the revised data.

Over the past year, DOD has undertaken several initiatives to address its long-standing disbursement problem. These included short-term efforts to identify the extent of the problem and attempts to reduce it using mostly manual efforts. DOD also has a number of long-term efforts aimed at improving its contract pay and accounting systems. However, correcting the disbursement problems will not be an easy task given DOD's failure over the years to practice sound financial management principles and the extremely poor quality of its automated contract pay and accounting systems. Unless accounting discipline and improved internal controls are emphasized and enforced in the short term, DOD's problem disbursements may be generated as fast as its special teams can resolve them. In the long term, DOD must improve payment and accounting systems and internal control features to avoid making payments that cannot readily be matched to corresponding obligations.

Background

Federal agencies, including DOD, are responsible for ensuring that their funds are expended in accordance with the purposes and limitations specified by the Congress. DOD Directive 7200.1 specifies the requirements for accounting and fund control systems that DOD activities are to follow to comply with congressional purposes and limitations. For example, the Directive states that these systems are to ensure that funds are used only for congressionally authorized purposes and that payments are not to exceed amounts available.

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In order to comply with legal and regulatory requirements, DOD organizations' accounting and fund control systems must be able to record disbursements as expenditures of appropriations and as reductions of previously recorded obligations. Proper matching of disbursements with related obligations is necessary to ensure that the agency has reliable information on the amount of funds available for obligation and expenditure.

DOD's administrative control procedures are intended to prevent unauthorized disbursements and purchases and to ensure that DOD organizations do not obligate or spend more funds than the Congress has appropriated. These control procedures require DOD organizations to (1) commit or administratively reserve funds based on firm procurement directives, orders, requisitions, or requests, (2) record obligations in appropriation account(s) when they place an order, award a contract, or receive a service, and (3) match disbursements with the related obligations in the accounting records as payments are made.

Certain DOD organizations commit and obligate funds, and other DOD offices generally disburse the funds. For example, during fiscal year 1993, the Columbus Center of the Defense Finance and Accounting Service (DFAS), one of DOD's major contract paying activities, administered over 370,000 contracts valued at \$482 billion and paid over 1 million invoices totaling \$64 billion. Disbursing offices, such as DFAS-Columbus, are required to ensure that (1) payments are made only for goods and services authorized by purchase orders, contracts, or other authorizing documents, (2) the government received and accepted the goods and services, and (3) payment amounts are accurately computed. They are also responsible for ensuring that accounting data on payment supporting documents are complete and accurate.

In order to match disbursements with the corresponding obligations and record the transactions into the accounting records, the disbursement data must flow from the activity making the disbursements (paying activity) to the activity responsible for matching the payment to its corresponding obligation and recording the transaction in the accounting records (accountable activity). The flow of data from the paying activity to the accountable activity varies by military service. For example, Air Force transactions generally flow from the paying activities through the DFAS-Denver Center to the Air Force accountable activities. Navy disbursements flow essentially the same way, except the data flows through the DFAS-Cleveland Center to the accountable activities. The Army uses a more simplified flow: its disbursements generally flow from the paying activity directly to the Army accountable activity if the paying activity is an Army activity or the DFAS-Columbus Center. Disbursements made for the Army by the Air Force, Navy, and non-DOD organizations flow through the DFAS-Indianapolis Center to the Army accountable activities.

Scope and Methodology

To measure DOD's progress in resolving problem disbursements and evaluate DOD's criteria for identifying and reporting on disbursements that could not be properly matched to obligations, we met with the DFAS officials responsible for identifying the universe of transactions to discuss and assess how they determined if all disbursements not properly matched with obligations were included and correctly reported. We also analyzed the criteria DOD used to establish the \$19.1 billion as its benchmark for reporting progress in correcting disbursements not properly matched to obligations.

We obtained the dollar values of disbursements discussed in this report from agency reports or compiled them from agency records. We did not verify the accuracy of disbursement data included in agency reports or records because the data consisted of hundreds of thousands of disbursement transactions. Consequently, we cannot provide any assurance that the \$24.8 billion of problem disbursements that had not been properly matched to obligations as of June 30, 1994, are correct and that total problem disbursements will not prove to be greater when all the facts are known.

To identify systemic control weaknesses that keep DOD from solving its disbursement problems, we reviewed audit reports and the Secretary of Defense's fiscal year 1993 Annual Statement of Assurance under the Federal Managers' Financial Integrity Act. To assess the DOD team's progress in addressing these weaknesses, we spoke with team officials at DFAS centers and headquarters and reviewed various progress reports and other internal documents on disbursement problems and corrective actions taken or planned.

We performed our work at the offices of the DOD Comptroller, Washington, D.C.; the Air Force Materiel Command, Dayton, Ohio; the Army Materiel Command, Alexandria, Virginia; Headquarters, DFAS, Arlington, Virginia; and the following DFAS Centers: Denver, Colorado; Indianapolis, Indiana; Kansas City, Missouri; Columbus, Ohio; and Cleveland, Ohio. Our work was performed between November 1993 and September 1994 in accordance with generally accepted government auditing standards.

As agreed with your offices, we did not obtain written DOD comments on a draft of this report. However, we discussed the results of our review with officials from the DOD Comptroller's Office and DFAS and have incorporated their views where appropriate. These officials generally agreed with our findings.

DOD Has Made Some Progress in Reducing Problem Disbursement Transactions

DOD reported that it had reduced its problem disbursements from the benchmark figure of \$19.1 billion to \$9.7 billion—a \$9.4 billion reduction—as of June 30, 1994. Although we agree that DOD has made some progress, DOD's reduction was actually \$5.8 billion. We found that \$3.6 billion of the reported reduction was for problem disbursements that the Navy reclassified as negative ULOS—which still must be resolved.

According to the DOD team leader, prior to December 1993, one of the Navy's accounting systems would not accept a payment transaction if it would result in a negative ULO. Instead, the Navy's system would reject such transactions to a suspense file that included disbursements that had not been matched to obligations. When DOD established the June 1993 benchmark for Navy transactions, it included the amounts in the suspense file and—therefore, the Navy negative ULOS—in the \$19.1 billion benchmark.

In December 1993, the Navy changed its system procedures and began processing the rejected transactions as negative ULOS. At that time, DOD reclassified these transactions as negative ULOS and took them off the "problem" list. We informed DOD on several occasions that while these transactions were properly reclassified as negative ULOS, they should not have been removed from the "problem" list simply because they were reclassified from one category of problem transaction to another. Although the officials agreed that the negative ULOS were problem disbursements that still needed to be resolved, they continued to report them as resolved in measuring and reporting on DOD's progress to the Senate Committee on Governmental Affairs and the House Committee on Government Operations, Legislation and National Security Subcommittee. For example, on April 12, 1994, the DOD Comptroller testified before the Senate Committee that as of February 1, 1994, DOD had reduced the \$19.1 billion benchmark figure by \$7.1 billion. However, our analysis showed that as of that date, \$3.2 billion of unresolved Navy negative ULOS were included in the \$7.1 billion reduction.

DOD Team Did Not Initially Identify the Full Extent of Disbursement Problems

Compounding DOD's disbursement problem is the fact that the June 1993 benchmark, which is used to measure and report DOD's progress, did not include all types of problem transactions. As a result, DOD significantly understated the magnitude of problem disbursements by billions of dollars. After we brought this to DOD officials' attention, DOD began, in March 1994, to collect data on the problem disbursement transactions that were not originally included under the criteria DOD used to establish its benchmark. Using the revised criteria, our analysis showed that DOD's records contained at least \$24.8 billion⁴ in problem disbursement transactions as of June 30, 1994. DOD Comptroller officials stated that they plan to update the original benchmark figure to show DOD's total disbursement problem but could not tell us when it would be reported.

⁴Balances totaling \$2 billion for some activities were as of April 30, 1994, because they were the most current data available at the time of our audit.

The original criteria DOD used to define problem disbursements and the revised criteria DOD began using in March 1994 differed in several ways. According to DOD Comptroller officials, this was DOD's first effort to quantify its overall disbursement problem. In order to establish a benchmark amount in a reasonable period of time, DOD officials stated, they initially focused on known problems to establish their criteria for defining problem transactions.

As a result, DOD did not identify certain categories of problem disbursements which should have been included to more fully disclose the extent of the disbursement problem. Specifically, as discussed in the following sections, DOD (1) used net rather than gross disbursement balances, which significantly lowered the amount reported, (2) did not include disbursement problems for certain activities in its figures, and (3) did not consider certain disbursement transactions if initial matching efforts had not been attempted.

Netting Positive and Negative Balances Lowered Reported Totals

We found that some DOD activities had been offsetting positive and negative balances, thus reporting lower amounts. For example, if a contract had \$10 million of positive obligation balances and \$15 million of negative obligation balances, the activity would net the two balances and report the \$5 million of negative balances as problem disbursements.

DOD's progress report on disbursements showed that as of March 31, 1994, DFAS-Denver had \$630 million of negative ULOs that were determined by netting positive and negative balances.⁵ At our request, DFAS-Denver developed a computer program to identify and summarize its negative ULO transactions without netting them with the positive amounts. Using this program, DFAS-Denver reran the March 1994 data and found that its negative ULO balances totaled about \$7 billion, which was more than 11 times the \$630 million of net balances reported to DFAS headquarters. Since DFAS-Denver did not previously maintain gross data on negative ULO balances, it could not provide us with any trend data prior to March 1994. However, DFAS-Denver officials acknowledged that they previously had always used net values in their reports to DFAS headquarters. After we brought this to the DFAS officials' attention, DFAS-Denver included the gross negative ULO amounts in its June 1994 and subsequent progress reports.

⁵Generally, only negative ULOs are problem disbursement transactions. Positive ULO balances represent the amount remaining to be spent.

In April 1994, DFAS-Denver began to assign staff to review and correct the \$7 billion of negative ULO balances. In total, 23 staff were eventually assigned to this task. As a result of this effort, DFAS-Denver reported that it had reduced its negative ULOS to about \$2.1 billion as of June 30, 1994.

Not All Activities Were Included

When the team calculated the amount of problem disbursements, it did not include all DOD activities. According to the DOD team leader, the team focused its efforts only on the military services because it believed that the other activities did not have material disbursement problems comparable to those of the military services. Our review of April 30, 1994, disbursement data at the DFAS-Indianapolis Center identified 23,999 disbursements totaling about \$2.4 billion at 36 activities other than the military services that had not been matched to an obligation. These amounts included 11,239 disbursements totaling about \$1.5 billion that had remained unmatched for over a year. After we brought this to the DOD team leader's attention, he agreed that other DOD activities should be included but did not know when or if DOD would begin to do so.

Some Transactions Were Excluded

DOD did not include disbursement transactions if no matching efforts had yet been attempted, regardless of how old the transactions were. The DOD team leader told us that they did not initially include these types of transactions since aging data were not readily available to show how long the transactions had remained outstanding. After our meeting with the DOD team leader, the DFAS Deputy Director for General Accounting issued a memorandum on April 21, 1994, that required the Centers to maintain aging schedules for disbursements. He stated that it should never take over 60 days for disbursement transactions to be forwarded to and received by an accountable station for matching.

In response to the DFAS Deputy Director's guidance, the DFAS Centers reported to DFAS headquarters in June 1994 that their records included at least \$14.8 billion of disbursements as of April 30, 1994, that were over 60 days old and had not yet been received by an accountable station for matching with an obligation.

Change in Fund Control Requirements Demands Accurate Records of Obligations and Disbursements

An important facet of DOD's disbursement problem is its inability to accurately account for and report on the amount of obligations and disbursements for old appropriation accounts. Of the \$24.8 billion in problem disbursement transactions as of June 30, 1994, about \$5 billion was related to canceled appropriations, originally called the "M" accounts. Currently, the DOD Comptroller's office has not provided DOD components with any guidance on how to correct these problem disbursements in their accounting records.

In 1990, the Congress changed the law for reporting on old appropriation accounts⁶ because it found that the controls over them were not working as intended. Specifically, DOD (which had most of the "M" and merged surplus authority accounts) had been expending funds from these accounts without sufficient assurance that authority for such expenditures existed or in ways that the Congress did not intend. The Congress was particularly concerned about (1) the large balances available to DOD in the "M" and merged surplus accounts, which totaled a reported \$50 billion at the time of the new law, (2) DOD's access to and routine use of hundreds of millions of dollars from the "M" accounts and merged surplus authority to cover contract cost increases, and (3) lack of congressional oversight over these accounts.

The Congress passed Public Law 101-510 to strengthen its oversight and control over expired appropriations. The law, enacted on November 5, 1990, canceled the budget authority associated with obligations recorded in "M" accounts in stages, with the final cancellation occurring on September 30, 1993. The new law also required

- agencies to maintain records for each expired appropriation account reflecting obligated and unobligated balances by year for 5 years and
- cancellation of obligated and unobligated balances for other appropriation accounts 5 years after the budget authority expires regardless of whether or not goods or services contracted for have yet been provided or paid for. Accordingly, an additional year of appropriation accounts was canceled on September 30, 1994, and other appropriation accounts will be canceled each fiscal year thereafter as each rolling 5-year period ends.

In order to ensure that obligations and expenditures do not exceed the amounts appropriated, agencies will have to maintain adequate records by

⁶Under the old law, after an appropriation account had been expired for 2 years, its remaining obligated, but as yet unpaid, balances were combined with like appropriation accounts from prior years into merged accounts, commonly referred to as "M" accounts. Also, the unobligated balances of these expired appropriations were likewise combined into merged surplus authority accounts.

fiscal year of obligated, unobligated, and expended balances of current, expired, and canceled budget authority.

The Congress, aware of particular problems with DOD's handling of its "M" accounts, also included in Public Law 101-510 a requirement that DOD audit all its "M" accounts by December 31, 1991. One purpose of the audit was to establish the total balances of "M" accounts. Therefore, to achieve this purpose, DOD would need to properly match disbursements with obligations associated with those accounts.

In April 1993, we reported⁷ that as of September 30, 1992—or 9 months after the audit of its "M" accounts was to be completed and nearly 2 years after the passage of Public Law 101-510—DOD had still not finished its review of "M" account balances. At that time, DOD stated that it would complete its review by September 30, 1993—the date that the final "M" account balances were to be canceled. As that date approached, the Department of the Treasury sought our opinion on whether it was authorized to continue accepting agency adjustments to canceled DOD "M" account balances after the September 30, 1993, cutoff in order to properly record disbursements associated with those accounts. We stated⁸ that the Department of the Treasury could make these adjustments to reflect the completion of accounting transactions that occurred before the accounts were closed. In response to our opinion, the Department of the Treasury granted agencies until May 31, 1994, to post disbursements that had not been previously matched to obligations.

In February 1994, we advised the Secretary of Defense that DOD still had billions of dollars of disbursements that had not been properly matched to obligations, many of which were in the "M" accounts, and asked how DOD planned to deal with the situation.⁹

In May 1994, the DOD Deputy Comptroller for Financial Systems responded that it was unlikely that DOD could identify and correct all disbursement problems by the May 31, 1994, deadline established by the Department of the Treasury. He also asserted that there was no avenue for correcting errors attributable to closed accounts after the deadline.

⁷Financial Management: Agencies' Actions to Eliminate "M" Accounts and Merged Surplus Authority (GAO/AFMD-93-7, April 2, 1993).

⁸B-251287, September 29, 1993.

⁹Letter to the Secretary of Defense (GAO/AIMD-94-84R, February 24, 1994).

We disagree with DOD's assertion that it no longer has an avenue to resolve problem disbursements associated with its canceled "M" accounts. As a result of accounts being canceled under Public Law 101-510, agencies must find a source of funds to pay otherwise valid obligations that did not become payable until after the originally chargeable account was canceled. The law provides that with certain limitations, agencies may pay such obligations out of currently available appropriations.

One limitation on this authority is that agencies must be able to demonstrate that there would have been enough unexpended funds in the canceled account to make the payment. Agencies could do this by showing that there is a sufficient unexpended balance in the Department of the Treasury account for the appropriation to make the payment. However, an account maintained by the Department of the Treasury ceases to exist once it is canceled under Public Law 101-510. Therefore, agencies will have to use their own accounting records as a basis for demonstrating that the payment could have been made from the canceled account.

To do this, DOD must maintain current and accurate records of disbursements attributable to both the canceled "M" accounts and any subsequent canceled accounts in order to justify using current appropriations to make payments attributable to these previously closed accounts. Therefore, DOD must reconcile the about \$5 billion of problem disbursements related to canceled "M" accounts that had not been properly matched to obligations as of June 30, 1994. This procedure is necessary to ensure that payments do not exceed the originally appropriated amounts and result in Antideficiency Act violations. DOD will also need to retain records of the transactions related to the canceled appropriation accounts until such time as it is determined that there are no longer any outstanding claims against the accounts.

Correcting Internal Control and System Weaknesses Is Key to Resolving Long-standing Problems

We have previously reported¹⁰ that long-standing system problems hinder DOD's ability to properly match disbursements with obligations. Our current review confirmed that DOD continues to experience serious control weaknesses over its disbursement process. Continued management emphasis is essential if DOD is to correct the material weaknesses that cause negative ULOS and other disbursement problems. These weaknesses are cited in the Secretary of Defense's fiscal year 1993 Annual Statement of Assurance under the Federal Managers' Financial Integrity Act.¹¹ In March 1994, the DOD Comptroller issued guidance aimed at reducing disbursements made in excess of recorded obligations. Over the long term, DOD is relying on its Corporate Information Management (CIM) initiative, which to date has had only limited success, to improve the existing procedures and systems involving DOD disbursements as well as the consistency of data in DOD's financial management systems.

DOD Comptroller Guidance on Disbursements in Excess of Obligations

On March 31, 1994, the DOD Comptroller issued guidance to correct what he referred to as the long-standing problem of DOD disbursing funds in excess of recorded obligations. He directed that (1) payments not be made until the accounts are corrected or additional funding is made available if there are not sufficient funds at the appropriation level to cover the invoice owed and (2) additional obligational authority be provided, if available, to cover negative ULOS that have remained outstanding for over 180 days. In his transmittal for the guidance, the Comptroller forthrightly stated that

"the Department routinely writes checks on accounts that are in the red, under the assumption that these accounts are in the red because of innocent accounting errors...Even when accounts have been in a deficit status for some time, Department procedures permit continued expenditure of funds against those negative balances...Such practices are clearly contradictory to the Antideficiency Act and flatly violate minimum standards of sound financial management."

The Comptroller also noted that DOD had accepted the idea that negative balances were caused by errors and that few people felt responsible for correcting the problem. He said that DOD had 23 appropriation accounts that were in the red as of December 31, 1993, and that he had asked the

¹⁰See footnote 1.

¹¹In the Secretary of Defense's fiscal year 1993 Annual Statement of Assurance, DOD acknowledged that (1) unmatched disbursements, negative unliquidated obligations, and overpayments to contractors are material weaknesses and (2) system weaknesses involving the contract pay and accounting systems must be resolved to correct the disbursement problems.

DOD Inspector General to initiate investigations for 10 potential Antideficiency Act violations.¹²

According to a DOD Inspector General official, three of the investigations had been completed as of August 1994 and, in all three cases, the reported deficiencies had been caused by accounting errors which, when corrected, had not resulted in Antideficiency Act violations. The official advised us that the Inspector General was completing the remaining investigations but could not tell us when the investigations would be done.

We believe that the Comptroller's guidance is a first step in addressing DOD's long-standing disbursement problems. DOD must make every effort to ensure that this guidance is properly implemented. However, this will not be an easy task given DOD's years of sloppy bookkeeping, the failure to observe and enforce rudimentary control features over its disbursement process, and serious deficiencies in DOD's contract pay and accounting systems. For example, we found that DOD continues to experience serious internal control weaknesses over one of its computer-based disbursement systems, the Mechanization of Contract Administration Services (MOCAS), which is used to administer contracts and pay invoices at DFAS-Columbus. MOCAS records showed that as of June 30, 1994, 2,551 contracts were overdisbursed by a total of \$1 billion. This was a \$612 million increase in overdisbursed contracts at that location since July 1993.

DFAS-Columbus officials told us that they did not have any reports to show how long the contracts had been in a negative status. They also stated that most of the overdisbursements were probably caused by errors in recording the disbursements or obligations. They noted that until detailed reviews of the 2,551 contracts were completed, they would not know how much, if any, of the \$1 billion of recorded overdisbursements resulted from overpayments or whether they were caused by accounting errors.

We agree that each of the 2,551 contracts will have to be reviewed to determine if contractors were overpaid. We also believe that there is a good possibility that some overpayments may have occurred. For example, we recently reported¹³ that during a 6-month period, hundreds of

¹²We previously advised the Secretary of Defense on February 24, 1994, that we had identified five appropriations related to the "M" accounts that were in a negative status totaling \$152.7 million as of September 30, 1993, (see footnote 9). According to DOD Comptroller and DOD Inspector General officials, two of the five "M" accounts are included in the accounts the Inspector General is currently investigating, two have been resolved with no Antideficiency Act violations, and one is still under investigation by the military service responsible for the account.

¹³DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, March 14, 1994).

contractors returned about 4,000 checks totaling \$751 million to DFAS-Columbus. The \$751 million included \$305 million of overpayments, virtually all of which were voluntarily returned by the contractors.

Systems Weaknesses Will Not Be Corrected for Years

DOD has cited the CIM initiative as the long-term solution to its systems problems.¹⁴ However, CIM system improvements will not be implemented for years and DOD has not yet established a milestone date for completing the CIM work related to its contract payment and accounting systems.

According to DFAS officials and the June 10, 1994, Financial Systems Plan (which is DFAS's overall plan to reduce the number of financial systems), work being performed under the overall CIM concept is expected to help resolve DOD's disbursement problems. The officials stated that DOD's goal is to have one overall system which would support both the contract pay and accounting functions. These officials also stated that completing the work successfully in several areas will be key to achieving the overall system goal. These areas include the following:

- Reducing the number of computer data elements for finance and accounting. Currently, there are over 100,000 data elements in over 250 DOD finance and accounting systems. As of July 1994, DFAS determined that the finance and accounting community needed only 778 data elements, of which 256 have already been approved for use.
- Eliminating duplication of work through single source data entry. Since the data will be entered only once to satisfy the needs of all functional areas, including the acquisition and financial areas, this should help reduce errors, such as transposing numbers.

We agree with DOD that standardizing accounting information and related procedures should make processing disbursement transactions less complex and will help eliminate DOD's disbursement problems. However, this will be a difficult task since DOD's disbursing process is very complex and decentralized. For example, in the DOD Comptroller's April 12, 1994, testimony before the Senate Committee on Governmental Affairs, he noted

¹⁴CIM entails a major effort to improve DOD's operations and administrative support by streamlining business processes, upgrading information systems, and improving data administration. CIM's objectives include creating more uniform practices for common functions and improving the standardization, quality, and consistency of data from DOD's management information systems. CIM is also intended to reduce or eliminate systems that perform the same function. Our April 12, 1994, report, entitled *Defense Management: Stronger Support Needed for Corporate Information Management Initiative to Succeed* (GAO/AIMD-94-101), stated that over the past 4 years, DOD has had some success in implementing CIM in certain functional areas, such as health affairs; in other areas, however, gains have been marginal.

that the purchase of an F-18 aircraft can take as many as 105 paper transactions and involve different functional areas, such as budgeting, contracting, and accounting. According to the Comptroller, the purchasing process involves separate chain-of-command organizations that must work together to accomplish the tasks, and an honest mistake in any one of the 105 paper transactions can produce inconsistencies that require extensive manual research to resolve.

In light of the problems DOD has encountered in developing and improving its systems over the years, accomplishing CIM's objectives will be a long-term effort. Therefore, DOD will have to continue to rely on existing systems to provide information on the amount of funds appropriated, obligated, and disbursed and to report this information to the appropriate congressional committees. Thus, DOD needs to pursue short-term efforts to improve the quality of the information in its systems. This can be as simple as complying with existing guidance and procedural requirements for (1) recording obligations prior to making contract payments, (2) detecting and correcting errors in the disbursement process, and (3) posting accurate and complete accounting information in systems that support the disbursement process. Otherwise, the problems DOD has encountered in properly matching disbursements with obligations will continue.

Conclusions

Despite numerous audit reports over the last 14 years that repeatedly identified DOD's internal control weaknesses, DOD continues to experience serious problems in accounting for disbursements. Not being able to properly match a disbursement to an obligation is a serious, fundamental breakdown in internal controls and DOD's fund control systems. Although DOD has taken some initial steps to reduce its disbursement problems, serious weaknesses still exist in DOD's systems, as evidenced by the \$24.8 billion of problem disbursement transactions identified as of June 30, 1994.

Intensified and sustained top-level management commitment, as called for by the DOD Comptroller, will be needed to resolve the disbursement problem. In the short term, DOD's efforts, including its manual research of problem disbursement transactions to correct errors, will likely reduce the amount of disbursements not properly matched to obligations. However, the disbursement problem will not be adequately resolved until (1) weaknesses in control procedures that allow problem disbursements to occur are corrected and (2) improvements are made to DOD's contract pay and accounting systems.

Recommendations

We recommend that the DOD Comptroller establish a new benchmark to measure progress in reducing DOD's disbursement problems. At a minimum, the new benchmark figure should (1) include all DOD activities, (2) be comprised of gross values, and (3) include all disbursements that have not been received by an accountable activity for matching with an obligation within 60 days after a payment is made.

We also recommend that the DOD Comptroller

- enforce existing regulations requiring DOD activities to record obligations and disbursements in an accurate and timely manner and
- require DOD activities to reconcile disbursements that have not been properly matched to obligations and correct its accounting records for all appropriation accounts, including those accounts that have been closed.

We recommend that the DFAS Director require DFAS-Columbus to

- resolve the \$1 billion of negative balances for the 2,551 contracts in MOCAS and
- report monthly to DFAS headquarters on the number of contracts that have expenditures in excess of obligations. The report should include (1) an aging schedule to show specific periods of time that the contracts and the related dollar values have been in a negative status, (2) the number and dollar amounts of new overdisbursed contracts added during the period, and (3) the number and dollar amounts of overdisbursed contracts resolved during the period.

We are sending copies of this report to the Secretary of Defense, the Director of the Office of Management and Budget, and other interested parties. We will make copies available to others upon request.

Please contact me at (202) 512-6240 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix I.

A handwritten signature in cursive script, reading "David O. Nellemann". The signature is written in black ink and is positioned above the printed name and title.

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Related GAO Products

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245, August 5, 1994).

DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, March 14, 1994).

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Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements (GAO/AFMD-93-21, June 9, 1993).

Financial Management: Air Force Systems Command Is Unaware of Status of Negative Unliquidated Obligations (GAO/AFMD-91-42, August 29, 1991).

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